HOUSING MARKET OUTLOOK

Charlottetown - Fall 2005

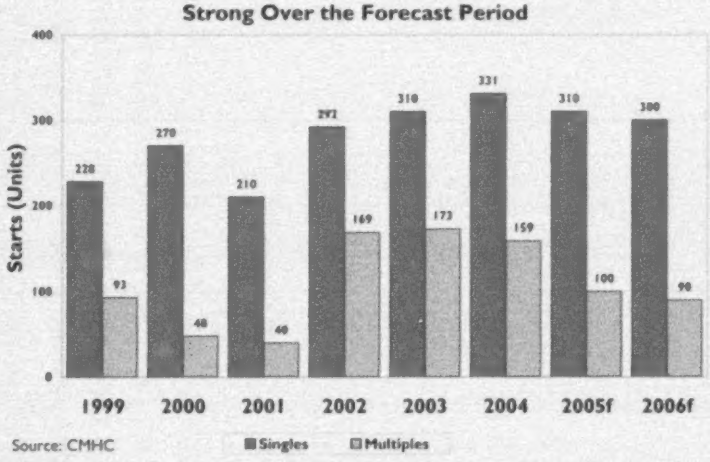
Residential Construction to Ease in 2006

Record Employment Levels Underpins Housing Market

The Charlottetown housing market is expected to remain strong for the remainder of the year, supported by the solid employment growth that has been seen throughout the year and low interest rates. Though total housing demand this year will not reach 2004 levels and is expected to ease again in 2006, the housing market is forecast to remain vibrant in historical terms.

The increase in employment opportunities has continued to entice many from other parts of the province to move to the capital region and has helped to bolster the strong consumer sentiment. Both these factors have been instrumental in underpinning the housing market. Employment in Charlottetown this year is expected to surpass the record level set last year, with more than 31,000 people employed. Most of the employment growth through the first nine months of 2005 is attributed to the more than 350 new full-time jobs in the city as compared to the same period of 2004. Part-time employment has also posted moderate gains this year, advancing 3.1 per cent from last year's level. The increase in employment so far this year has likely come from the Accommodation & Food Services, and Information, Culture & Recreation sectors, as both lead the

Both Single and Multiple Construction to Remain Strong Over the Forecast Period



Source: CMHC

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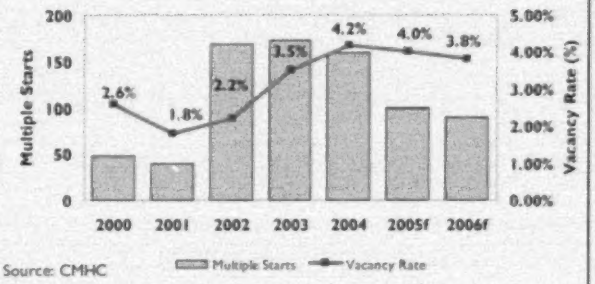
employment growth by industry for the province overall over the first three quarters of 2005. These factors are a sign that diversification in the region continues, which should help to reinforce the housing market in coming years.

Interest rates have remained low over the past few years and have dipped even lower so far this year. Rates are expected to edge up slightly over the forecast period, but the increases are not expected to be enough to dissuade potential homebuyers.

FEWER VACANT UNITS EXPECTED IN 2005

Continued demand for rental living and a slowdown in rental unit construction in the Charlottetown area is expected to reduce the vacancy rate to 4.0 per cent and 3.8 per cent in 2005 and 2006 respectively. Demand will be supported by sustained in-migration and the continued easing of multiple construction over the forecast period. Multiple construction activity in Charlottetown over the last couple years has been above historical levels, as developers have taken advantage of record low interest rates to build new multiple unit projects. The higher than normal multiple construction in these years have provided sufficient supply to prop up the average vacancy rate. Since 1995, there has been an average of 85 multiple units added to the Charlottetown market each year, while the average number of multiple starts in the 2002-2004 periods was almost double that rate at an average of 167 units per year. Multiple construction activity is expected to return to more normalized levels in 2005 and 2006 with 100 and 90 multiple units added in each of these years.

Fewer Vacant Units as Multiple Construction Activity Normalizes

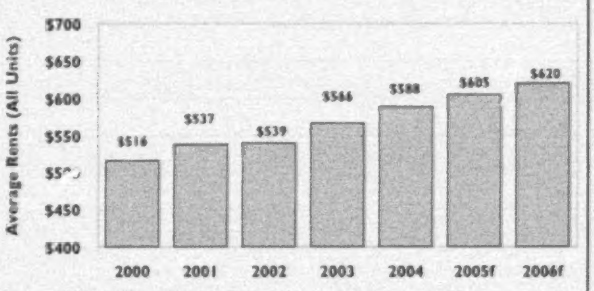


Source: CMHC

AVERAGE RENT INCREASES PROPPED UP BY NEWER HIGH-END UNITS

In 2004, the average two-bedroom rent in Charlottetown increased from $591 in 2003 to $610 an increase of 3.2 per cent that was slightly ahead of the rent increase allowed by IRAC last year. The additional average rent growth over and above the allowable rent increase was due to the new high-end units added to the rental market in the 2003-2004 periods. Expect average rents to increase at a more subdued pace over the forecast period, as the number of newer high-end units added to the market moderates.

Average Rents to Increase Over Forecast Period

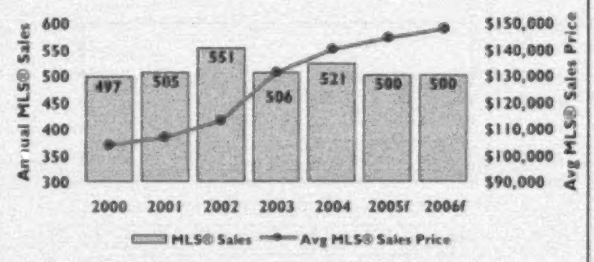


Source: PEI Real Estate Board & CMHC Forecast: Charlottetown CA

SALES ACTIVITY TO REMAIN RELATIVELY STABLE

The number of resale transactions in the Charlottetown area has not fallen below the 500 level since the year 2000, and is not expected to do so over the forecast period. Sustained employment growth, increased new listings and the rising cost of new homes will keep MLS® sales at this level over the next two years. Demand for existing homes will be weakened somewhat as mortgage interest rates begin to rise over the forecast period; however, MLS® sales will be sustained by the growing gap between the cost of new and existing home prices. New home price growth has been fuelled by rising land and material costs and as the gap between the two continues to widen, more potential home buyers will opt for existing homes. Greater new listings of existing homes and fewer sales at the higher price ranges will result in an easing of the average MLS® price growth in 2005 and 2006. Expect the average MLS® price to increase 2.9 per cent and 2.4 per cent over this period to $144,000 and $147,500 respectively.

Average MLS® Sales Price is Expected to Rise While Sales Stabilize



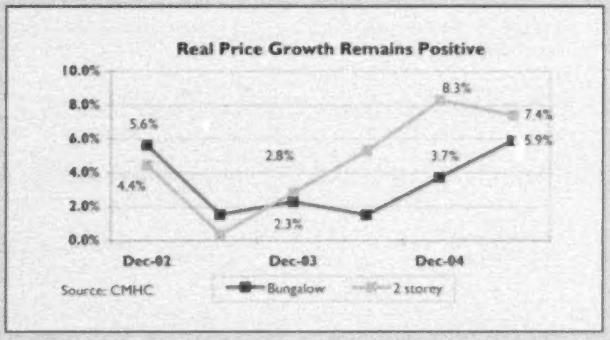
Source: PEI Real Estate Board & CMHC Forecast: Charlottetown CA

COSTS AND TYPE OF HOMES TO PUSH NEW HOME PRICES UP IN 2005

It is expected that Charlottetown will continue to see larger more elaborate and more expensive homes built over the forecast period, driving up the average new home price in the area. The expected rise in new home prices will also be a result of the increased costs associated with labour, land and materials, which is measured by the New House Price Index (NHPI). The NHPI in the Charlottetown area in 2005 and 2006 is forecast to be 4.0 per cent and 3.0 per cent respectively. This means that it will cost 4.0 per cent and 3.0 per cent more to build the exact same house in this year than in the prior year. Expect the new home price to reach $187,000 and $192,000 in 2005 and 2006 respectively.

CMHC S SINGLE FAMILY HOME BENCHMARK APPRAISALS GAUGING REAL PRICE GROWTH IN CHARLOTTETOWN

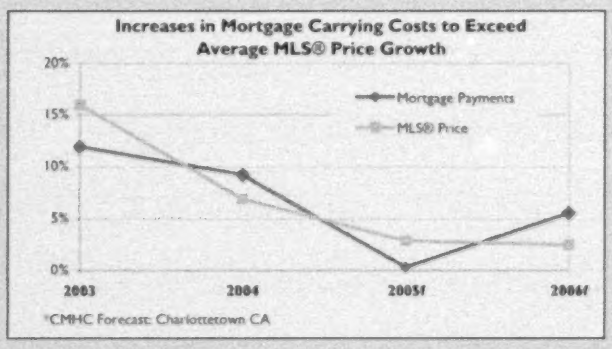
When calculating the actual increase in house prices, using the average sales price from the MLS® system can be misleading. For example, if there are more expansive homes sold in a given period, the average sales price can be artificially increased. The value of all homes in the entire area has not increased just the type and sometimes location and size of the home has changed. In an effort to provide the most comprehensive housing data available, CMHC now conducts a Benchmark Appraisal on a semi-annual basis in both Charlottetown and Summerside. The goal of this exercise is to determine the actual increase in home prices over time.



The results of this benchmark, which is in its third year, have shown that there has been actual price growth occurring in homes in the Charlottetown area. While the average MLS® sales price of homes in the area is expected to increase by 2.9 per cent in 2005, the real appreciation of homes between June 2004 and June 2005 was slightly more at 7.4 per cent and 5.9 per cent for a 2-storey and bungalow respectively

INCREASE IN AVERAGE MORTGAGE PAYMENTS TO EXCEED HOME PRICE GROWTH IN 2006

In 2005, the average 5-year fixed closed mortgage rate is expected to remain below the average posted 5-year rate of 2004, keeping increases in average mortgage payments minimal despite average existing home price increasing 2.9 per cent. Five-year mortgage rates are forecast to be in the 5.50-6.50 per cent range this year, rising only slightly in 2006. However, despite slower existing home price growth in 2006, this slight increase in mortgage rates are sufficient to cause an even greater increase in mortgage carrying costs on the average-priced existing home. In Charlottetown, the average MLS® price is expected to increase 2.4 per cent between 2005 and 2006 while at the same time, the average monthly mortgage carrying cost on the same average priced home is expected to increase by 5.5 per cent.



Note: Assumes 95% financing, mortgage insurance premium and 25-year amortization period on the average priced MLS® home.

FORECAST SUMMARY

Greater Charlottetown Area

	2001	2002	2003	2004	2005*	2006*	% chg
NEW HOME MARKET							
Starts							
Total	300	461	483	490	410	390	-16.3%
Single-family	250	292	310	331	310	300	-6.3%
Multiple/Rental	50	169	173	159	100	90	-37.1%
Average New House Price	$141,904	$180,973	$185,996	$179,488	$187,000	$192,000	4.2%
Complete and Unoccupied (Dec)	6	8	19	14	12	8	
RESALE MARKET							
MLS® Sales	505	551	506	521	500	500	-4.0%
Average Sales Price	$106,355	$112,986	$131,013	$139,988	$144,000	$147,500	2.9%
RENTAL MARKET							
Vacancy Rate (October)	1.80%	2.20%	3.50%	4.20%	4.00%	3.80%	
Average Rents (All units)	$537	$539	$566	$588	$605	$620	
Rental Rate (annual % change)	4.07%	0.37%	5.01%	3.89%	2.89%	2.50%	
ECONOMIC OVERVIEW							
Mortgage Rate (3 yr. term)	6.88%	6.28%	5.82%	5.65%	5.64%	6.00%	
Mortgage Rate (5 yr. term)	7.40%	7.02%	6.39%	6.23%	5.95%	6.27%	

* CMHC Forecast

Source: CMHC, Statistics Canada, PEI Real Estate Association

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This publication is also available in French. For more information, or to subscribe, contact Michèle Merrick at the Atlantic Business Centre at (902) 426-4708.
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